MINUTES
of the
SIXTH MEETING
of the
REVENUE STABILIZATION AND TAX POLICY COMMITTEE

November 8-10, 2004
Room 322
State Capitol

The sixth meeting of the Revenue Stabilization and Tax Policy Committee (RSTPC) for the 2004 interim was called to order by Representative Donald L. Whitaker, chair, on Monday, November 8, at 9:15 a.m. at the State Capitol.

PRESENT
Rep. Donald L. Whitaker, chair
Sen. John Arthur Smith, vice chair
Rep. Janice E. Arnold-Jones
Sen. Sue Wilson Beffort
Sen. Mark Boitano
Sen. Carlos R. Cisneros
Rep. Anna M. Crook
Sen. Joseph A. Fidel
Rep. Roberto "Bobby" J. Gonzales
Sen. John Grubesic
Rep. George J. Hanosh
Sen. Timothy Z. Jennings
Rep. Ben Lujan
Sen. William E. Sharer
Sen. H. Diane Snyder
Rep. Thomas C. Taylor
Rep. Luciano "Lucky" Varela

ABSENT
Rep. Daniel P. Silva

Designee
Rep. Henry Kiki Saavedra (*designee for Rep. Daniel P. Silva*)

Staff
Amy Chavez, Pam Ray and Tim Crawford

Guests
The guest list is in the meeting file.

Copies of all written testimony are in the meeting file.

Monday, November 8

APPROVAL OF MINUTES

The committee unanimously approved the minutes of its fifth meeting held on October 13-15 at the State Capitol.

K-MART V. TAXATION AND REVENUE DEPARTMENT UPDATE

Jim Eads, president and executive director of the New Mexico Tax Research Institute, discussed the oral arguments of two cases argued before the New Mexico Supreme Court on October 14. K-Mart is the appellant in one case and Sonic is the appellant in the other case. The general issue presented for decision in both cases is whether or not the New Mexico gross receipts tax is applicable to the sale of a license for use in New Mexico when the sale occurred outside of New Mexico.

Mr. Eads explained the facts of each case. The corporate headquarters of K-Mart are located in Michigan. In 1991, K-Mart created a wholly owned subsidiary corporation, KPI, to own certain trademarks, trade names and service marks. KPI licenses the use of that intangible property back to K-Mart in return for the payment of a royalty fee. Sonic similarly has corporate headquarters out of state. The corporate headquarters of Sonic are located in Oklahoma. Sonic enters into license agreements with licensees in New Mexico. The Taxation and Revenue Department (TRD) asserted that audits of both KPI and Sonic revealed that gross receipts tax was due on the sales of the use of the K-Mart trade name in New Mexico and the use of the licenses purchased by New Mexico licensees from Sonic. Sonic paid the taxes that the TRD claimed were due and then claimed a refund, which was denied. Sonic sued to obtain the refund. K-Mart sought and obtained a hearing before the TRD, which upheld the assessment of the tax and an appeal was taken from the hearing officer's decision and order. Both K-Mart and Sonic received unfavorable rulings from the lower courts and appealed to overturn those rulings to obtain refunds for the gross receipts taxes paid and to further abate gross receipts tax assessments.

According to Mr. Eads, the statutory question that the outcome of the cases will hinge upon is where the sale of the intangible properties of KPI and Sonic occurred. The New Mexico gross receipts tax can be applied to a sale if it occurs in New Mexico. Mr. Eads summarized the arguments made by both the appellants and appellees as to whether sales of intangible property occurred in New Mexico.

Mr. Eads concluded that the cases could have far-reaching consequences for all of the states because a large number of businesses could be affected and because the manner in which constitutional standards for nexus pursuant to the commerce clause are interpreted might be refined.

GASOLINE TAX ISSUES

Ruben Baca, executive director of the New Mexico Petroleum Marketers Association, discussed issues of concern to the organization. The association members are concerned about increasingly demanding regulatory requirements placed on the petroleum industry, including late night convenience store regulations. Mr. Baca expressed concern that the hasty passage of regulations denies the legislature its power to debate and vote upon important proposals.

Mr. Baca also expressed concern about a report produced by the TRD that recommends elimination of federal funding for remediation and cleanup of petroleum products. The report recommends that petroleum marketers instead purchase personal pollution insurance. However, the report also suggests that the petroleum marketers should continue to pay a petroleum products loading fee. The fee was previously used for federal funding of remediation and cleanup of petroleum products. Mr. Baca stated that the petroleum products loading fee should not be used as a tax on the petroleum industry to fund environmental projects that are not associated with petroleum product cleanup and remediation. He also stated that the fee should not continue to burden small operators, who are especially impacted by the fee. Thus, the New Mexico Petroleum Marketers Association holds that if federal funding for remediation and cleanup of petroleum products is removed, elimination of the petroleum products loading fee should follow.

Perry Martinez, co-chair of the New Mexico Native American Petroleum Coalition (NAPC), discussed the deductions for Native American tribes pursuant to the Gasoline Tax Act. Mr. Martinez stated that a compromise between state, petroleum marketers and tribes is reflected in the act, as the act:

- avoids double taxation of gasoline by the state and tribes;
- prevents unfair competition for non-Indian petroleum interests;
- encourages economic development on tribal lands;
- creates new jobs;
- provides a stable tax base for tribes; and
- provides gasoline, services and products for the communities.

Mr. Martinez explained the agreements between the state and the tribes contained in the Gasoline Tax Act. First, pursuant to that act, if gasoline is sold at retail on tribal land and if the tribe collects a gasoline tax on the fuel, the state does not tax the fuel. Previously under the Gasoline Tax Act, the pueblos of Nambe and Santo Domingo were able to each sell a set amount of wholesale gasoline not subject to the state's gasoline tax. However, both tribes have since entered into intergovernmental tax sharing agreements with the state where the tribes agreed not to exercise their right to sell wholesale gasoline for the term of the agreement, thereby allowing that gasoline to be sold on the off-reservation market subject to the state's gasoline tax. The state then remits a portion of the tax revenue collected by the state on the gasoline to the tribe.

Mr. Martinez stated that the compromises reflected in the provisions of the Gasoline Tax

Act are important to the tribes because tribal gasoline tax revenue is critical for tribal governmental services. On behalf of the NAPC, Mr. Martinez encouraged the members of the committee to support maintenance of the tax structure under the Gasoline Tax Act and to support a bill proposed to the RSTPC by the TRD to create gasoline reporting requirements.

REVENUE OUTLOOK FROM CRUDE OIL AND NATURAL GAS PRODUCTION

Tom Clifford, chief economist, and Kirk Muncrief, senior economist, TRD, provided a forecast of the revenues that the state is expected to generate from crude oil and natural gas production. The TRD estimates that statewide sales volume of natural gas has declined from 1,628 million cubic feet (Mcf) in 2001 to 1,564 Mcf in 2004. Sales volumes are declining in both the Permian and San Juan basins by about one percent per year. However, natural gas sales have increased by 2.2 percent in fiscal year 2004 in response to higher natural gas prices and increased drilling. After stabilization of those factors in 2005, production and sales of natural gas are expected to decline by one percent per year, while prices of natural gas are expected to remain high for several years. In comparison to the natural gas prices of other states, New Mexico prices are relatively low due to lower transportation costs and regional market demand. However, the factors that affect those prices are volatile.

Oil production in New Mexico has declined six percent since 2001, while it has decreased four percent in fiscal year 2004 from 2003. Oil production is expected to continue to decline by one percent per year. Some of the decline might be offset by drilling and higher oil prices, which are expected to encourage oil production. Prices, on the other hand, have increased by 29 percent in 2003 and 13 percent in 2004. Fiscal year 2005 prices are expected to average $40.00, which is a 26 percent increase from fiscal year 2004. Those prices are expected to decline during the next several years.

Dr. Clifford and Mr. Muncrief provided an overview of the market for natural gas in the next few years. They explained that current high natural gas prices reflect fundamental pressures in the North American market. Limited relief from the high prices is expected until liquefied natural gas (LNG) arrives in significant quantities in the North American market. LNG is not expected to substantially impact the market until 2008. In addition, five LNG terminals would need to be constructed on the West Coast for LNG to affect New Mexico natural gas prices. LNG terminals on the West Coast would compete with natural gas produced in the San Juan Basin, thus reducing prices received by New Mexico producers.

An outlook for future oil production in New Mexico was also provided to the RSTPC. In recent weeks, TRD data indicated that oil prices have risen to an average of $39.21 per barrel. Recent prices might reflect short-term market uncertainties stemming from hurricane damage in the Gulf of Mexico and supply uncertainty in Russia, Nigeria and Iraq. Additional pressures on prices are likely to result from demand increases due to economic growth in Asian nations, and limited supply resources from OPEC and other oil producers. Despite these pressures, supplies of oil should gradually increase and reduce prices because worldwide drilling is at an all-time high.

TRD estimates show that state revenue from oil and natural gas production will peak in fiscal year 2005 and decline after fiscal year 2005. Total state revenue is expected to increase by 13 percent to over $1.3 billion in fiscal year 2005, and in later years is expected to remain over $1.1 billion per year. Local governments are expected to receive $100 million per year from oil and gas production in the next several years. General fund revenue is expected to exceed $700 million in fiscal year 2005 and to decline to about $600 million over the next several years.

For every 10-cent change in the annual price of natural gas, state general fund revenue is expected to change by $12 million and local revenue is expected to change by $2 million. Every change of $1.00 in oil price is expected to change state general fund revenue by $4 million and local revenue by $1 million. Dr. Clifford and Mr. Muncrief further concluded that strong industry revenue would further benefit the state through personal and corporate income tax collections.

GOVERNOR RICHARDSON'S TAX PROPOSALS

Secretary Jan Goodwin, TRD, presented four tax relief proposals endorsed by Governor Bill Richardson. They include a proposal for tax relief for low- and middle-income households; expansion of the income tax exclusion for retirees; elimination of the single-parent penalty; and creation of a gross receipts tax holiday.

The proposal for tax relief for low- and middle-income households creates a new $3,000 exemption per person. The exemption would begin phasing out at $15,000 of adjusted gross income and phase out completely at $35,000 for single taxpayers. The exemption would begin phasing out at $25,000 for married taxpayers and phase out completely at $65,000. The proposal is expected to reduce general fund revenue by $23.5 million per year beginning in fiscal year 2006. The TRD estimates that 430 returns and 900,000 New Mexicans will be affected if the proposal becomes law. Tax liabilities are expected to be reduced by an average of $55.00 for each affected return. Approximately 166,000 New Mexicans are expected to be entirely relieved of their tax liabilities.

An expanded income tax exclusion for retirees is expected to affect 80,000 New Mexicans of age 65 and over. Existing law permits a maximum income tax exemption of $8,000 for taxpayers who are 65 and over or who are eligible to be treated as blind for federal income tax reporting purposes. The current exemption is phased out starting at $18,000 of adjusted gross income for single taxpayers and $30,000 of adjusted gross income for married filing joint taxpayers and heads of households. The exemption is completely eliminated at an adjusted gross income of $28,500 for single taxpayers and at $51,000 for married filing joint taxpayers and heads of households. The governor's proposals would eliminate the phase-out of the exclusion to allow all seniors to exclude at least $2,500 of income from their tax liabilities.

The elimination of the single-parent penalty will entail modification of income tax brackets so that single parents will be treated the same for tax purposes as married couples filing jointly. Secretary Goodwin explained that current income tax brackets for taxpayers filing head of household returns are designed on the outdated premise that single parents face lower household expenses than married couples. Secretary Goodwin stated that equalizing head of household tax brackets with those of married couples will more adequately reflect the expenses that single parents must pay to maintain their households. Fifty thousand single parents are expected to benefit from this proposal at an average of $40.00 each.

The gross receipts tax holiday proposal would prohibit the imposition of the gross receipts tax on retail sales items that cost less than $2,500 each. The gross receipts tax holiday would be a one-time holiday that would occur on August 6, 2005. The tax holiday is expected to reduce general fund revenue by $5 million and local government revenues by $43 million. The average household is expected to save $20.00 from the gross receipts tax eliminated on the holiday.

PRODUCED WATER TAX CREDIT PROPOSAL

John Gillis of the Public Service Company of New Mexico (PNM) discussed a proposal to provide a corporate income tax credit for the gathering, transporting or treatment of produced water for disposition in the generation of electricity. Produced water is water that is an incidental byproduct from drilling for oil or gas. The credit would be available to a taxpayer that gathers, transports or treats produced water that is disposed in the process of generating electricity. The credit would be available to the taxpayer during the year in which the disposition of the water occurs if the disposition of the water complies with Energy, Minerals and Natural Resources Department regulations. An eligible taxpayer may claim $1,000 per acre-foot of produced water disposed of in the taxable year. However, the tax credits claimed by taxpayers who gather, transport or treat the same produced water shall not exceed $3 million in a taxable year. The total credits claimed by the taxpayer over time also shall not exceed 50 percent of the taxpayer's capital cost of equipment for gathering, transporting or treating produced water that is disposed in an electric generating facility. The Energy, Minerals and Natural Resources Department would be charged with the task of determining whether produced water is disposed of in accordance with the department's rules for the purpose of determining whether a taxpayer is eligible for the produced water tax credit.

RURAL ELECTRIC COOPERATIVE NET METERING PROPOSAL

Keven Groenewold, executive vice president of the New Mexico Rural Electric Cooperative Association, discussed a proposal regarding net metering. Net metering benefits customers who generate their own power. If the customers make more electricity than they use, the excess flows to the cooperative, the customers' electricity meters run backwards and their electricity bills are reduced. The cooperative buys the excess power at the full retail price, rather than at the wholesale price for which it sells on the open market. Mr. Groenewold discussed a proposal to amend the Rural Electric Cooperative Act to promote equity in the net metering process. The proposal would provide a net metering credit for consumers who generate their own power in excess of their use. The credit would be equal to the average annual wholesale power cost less distribution system losses and would be redeemable by the customer against the customer's electricity bill liability.

Mr. Groenewold stated that the proposals would permit rural cooperatives to better operate and promote equity in sharing of operating costs among cooperative members. He also stated that the proposal promotes the generation of renewable energy by only providing the credit to consumers who use renewable energy sources.

HOSPITALITY TRAINING TAX CREDIT

Marianne Joyce of the Adventure Gallup and Beyond Initiative of the Gallup-McKinley Chamber of Commerce discussed the proposed legislation for a hospitality training tax credit. The legislation was initially introduced as House Bill 7 during the 2003 special session. The proposal would create a tax credit in an amount equal to the cost of hospitality training paid for by a taxpayer and attended by employees of the taxpayer in an amount of up to $10,000 per year.

Hospitality training would include customer service skills training to employees who work with tourists and other retail customers. Ms. Joyce stated that a new proposal based on the 2003 introduced legislation will refine the definition of a "hospitality business" eligible for the credit and reduce the fiscal impact of $72.56 million for the originally proposed legislation. Proposed reduction of the tax credit during the 2004 legislative session to $5,000 will additionally reduce the fiscal impact to the state to $18.25 million. Ms. Joyce further stated that the Tourism Department supports the proposal for the 2004 legislative session as an incentive for employers to provide hospitality training to their employees and to ensure better service for tourists and local consumers.

The committee recessed for the day at approximately 5:00 p.m.

ALTERNATIVE METHODS OF STATE FUND INVESTMENT

State Investment Officer Gary Bland of the State Investment Council (SIC) provided the RSTPC members with an overview of the manner in which the managed assets of the SIC are invested. Managed assets of the SIC include securities, cash and accrued income and other assets and liabilities. As of September 30, 2004, the SIC reported $11,577,807,636 in managed net assets. The SIC invests its managed assets in domestic equities, international equities, fixed income securities and cash. As of September 30, 2004, the SIC invested approximately 67.68 percent of its managed assets in domestic and international equities and approximately 32 percent in fixed income securities and cash.

The SIC also invests assets of the Land Grant Permanent Fund. The fund is invested in equities, core bonds, high-yield bonds, economically targeted investments and private equity. Sixty-five percent of the fund was invested in equities, 26 percent in core bonds, three percent in high-yield bonds and six percent in private equity as of September 30, 2004. Mr. Bland provided the RSTPC with information regarding the market value changes of various investment pools entered into by the SIC.

Mark Valdes, director of the State Board of Finance, discussed the state treasurer's responsibility for investment of the general fund, the local government investment pool, state bond proceeds, debt service funds and other miscellaneous funds. Mr. Valdes explained that state law enumerates the investments into which the state treasurer may enter and determines the role of the State Board of Finance in providing advice and consent to the state treasurer with respect to those investments.

Mr. Valdes explained the criteria that the state treasurer uses to make investment decisions. First, the state treasurer follows a "prudent person" rule for the investment of assets. He considers the preservation of principal, the maintenance of liquidity, return maximization and other factors in making investment decisions. The treasurer is authorized to invest in U.S. government obligations; commercial paper; corporate bonds; asset-backed obligations; repurchase agreements; bank, savings and loan association or credit union deposits; securities lending agreements; tax-exempt securities and mutual funds.

PROPOSAL TO ELIMINATE COUNTY FEES ON OUT-OF-STATE PRISONERS AT PRIVATELY OPERATED CORRECTIONAL FACILITIES

Ed Mahr from the Corrections Corporation of America discussed a proposal to eliminate county fees on out-of-state prisoners at privately operated correctional facilities. State law currently imposes a fee of $2.00 per out-of-state inmate incarcerated in a privately operated correctional facility. Mr. Mahr asserted that this fee negatively impacts privately operated facilities that must transfer in-state inmates to other facilities and house out-of-state inmates to replace them. He stated that the negative impact to the private facilities will likewise negatively impact surrounding communities, which will receive lower tax revenues from the facilities. Mr. Mahr indicated that Cibola and Torrance counties would be especially impacted by the fees.

TOBACCO SETTLEMENT REVENUE OVERSIGHT COMMITTEE (TSROC) LEGISLATION PROPOSALS

Senator Mary Jane M. Garcia, member of the TSROC, and Joe Lennihan, general counsel, TRD, asked for the RSTPC's endorsement of two bills supported by the TSROC and the TRD. The first proposed bill provides the TRD with new tools to enforce and collect the cigarette tax. It clarifies who applies cigarette tax stamps and provides for tax-exempt stamps. Distributors and manufacturers would be licensed and retailers of cigarettes would have to register with the TRD. The bill also enhances record keeping and establishes reporting provisions and civil and criminal penalties. The bill additionally provides the TRD and other law enforcement agencies with authority to stop and search suspect vehicles for counterfeit tax stamps or contraband cigarettes when there is probable cause to do so. The TRD or law enforcement officials are given the authority to destroy the counterfeit stamps and contraband cigarettes when they are no longer needed as evidence.

The second bill proposed by the TSROC and the TRD amends the Tobacco Delivery Sales Act in response to internet and mail-order sales of tobacco products or any tobacco product sale by written telephonic or electronic means where the tobacco products are conveyed to a purchaser by a delivery service. The proposed legislation provides for regulation of sellers and buyers of tobacco products and delivery services who convey the tobacco products to the consumer and will allow for the TRD to collect taxes on those sales. The proposed legislation provides a process for obtaining the age of consumers so that tobacco products will not be delivered to minors. Sellers of tobacco products that are to be delivered will have a duty to verify the ages and identities of purchasers of tobacco products.

ECONOMIC DEVELOPMENT TAX INCENTIVES

Dr. Clifford discussed the frequency of use of the various economic development tax incentives available in New Mexico. He presented the RSTPC members with information regarding the refundability of the various credits, whether the tax credits apply against local taxes and the estimated use of the tax credits as measured by their annual fiscal impacts to state and local revenues. Of the personal income tax incentives that exist, TRD estimates found that a deduction for net capital gain income was the most frequently used and had an impact of $2.2 million to state revenues in 2003. Of the corporate income tax incentives in existence, an election to file separate returns available pursuant to Section 7-2A-8.3 NMSA 1978 was the most frequently used. In 2003, the state realized a reduction in revenues of $30 million due to taxpayer use of the incentive. The film production tax credit offered pursuant to Section 7-2F-1 NMSA 1978 also significantly impacted state revenues with a fiscal impact of $4 million.

Of the gross receipts, compensating and withholding tax exemptions available, a tax credit for manufacturers created pursuant to the Investment Credit Act was the most frequently claimed, creating a negative fiscal impact to the state of $12 million. The high-wage jobs tax credit enacted during the 2004 legislative session followed with a fiscal impact of $2.2 million to the state as of November 2004. A deduction for wind energy generation equipment created pursuant to Section 7-9-54.3 NMSA 1978, the technology jobs tax credit and the laboratory partnership with small business tax credit each reduced state revenue by $2 million.

Rick Homans, secretary, Economic Development Department (EDD), recommended several additional new economic development tax incentives for adoption by the RSTPC. Those proposals include gross receipts tax deductions for aviation maintenance and aircraft refurbishing service receipts. Other proposals include a three-year tax holiday for startup companies in New Mexico; a five percent personal income tax credit for investment in New Mexico corporations; a five percent tax credit on qualified equipment for businesses that manufacture advanced energy technology; and a gross receipts tax and compensating tax deduction for companies that contract with the federal government for research and development services. Secretary Homans additionally suggested removal of the time limitation on the effectiveness of the rural jobs tax credit and expansion of a 15 percent rebate to film technologies.

RSTPC members questioned whether EDD could determine the effectiveness of tax incentives by determining for each incentive the number of jobs created, revenues generated and other indicators that measure economic growth. Secretary Homans explained that due to confidentiality requirements in state law, EDD cannot access the records of taxpayers benefitting from the tax incentives necessary to obtain such information. Kelly O'Donnell, assistant secretary and tax policy director of the TRD, further acknowledged that such information could not be made available to EDD.

NEW MEXICO SMALL BUSINESS ASSISTANCE INITIATIVE

Lenny Martinez, vice president of the Manufacturing Systems, Science and Technology Division of Sandia National Laboratories, and Marianne Johnston, program manager of the New Mexico Small Business Initiative, explained the initiative. The New Mexico Small Business Initiative addresses small business needs and requirements with expertise and resources from Sandia National Laboratories. The Laboratory Partnership with Small Business Tax Credit Act provides tax incentives for Sandia National Laboratories to promote small business development through the use of its resources. Mr. Martinez and Ms. Johnston requested the RSTPC to consider for adoption by the committee a memorial that requests a study of the Laboratory Partnership with Small Business Tax Credit Act. They proposed that a committee consisting of representatives from the Legislative Finance Committee, the EDD, Sandia National Laboratories and New Mexico small businesses conduct the study. Mr. Martinez and Ms. Johnston further suggested that the RSTPC propose legislation during the 2004 legislative session to increase the tax credits created by the Laboratory Partnership with Small Business Tax Credit Act.

TECHNICAL RESOURCE CONSORTIUM PATENT PROGRAM

Roman Maes, legislative liaison of the Technology Research Consortium (TRC), introduced Dr. Charles Whitehurst of the TRC, Dr. Van Romero of the New Mexico Institute of Mining and Technology and John Pieper of the University of New Mexico Human Services Center, each of whom advocates state funding of the TRC. The mission of the TRC is to collaborate in the acceleration of new technology business formations and expansions that will benefit research programs of TRC members, entrepreneurs, industries, investors and the state. New Mexico research institutions, including the University of New Mexico, New Mexico State University, the New Mexico Institute of Mining and Technology and Highlands University would participate in the collaborative. Several advanced technology centers would be named by the collaborative for research initiatives. Dr. Whitehurst, Dr. Romero and Mr. Pieper requested that the RSTPC recommend for proposal to the legislature an appropriation for $42 million to fund the initiatives of the TRC collaborative. They predicted that the funding of the TRC will have several positive economic effects, including job creation and promotion of high-technology industries in the state.

The committee recessed for the day at approximately 5:10 p.m.

CLEAN ENERGY PROPOSALS

Craig O' Hare, special assistant for renewable energy for the Energy, Minerals and

Natural Resources Department, discussed legislative proposals made by the governor's Clean Energy Task Forces. The task forces were created by an executive order in 2004 to promote the use of clean energy in the state. The task forces recommend that the legislature increase the renewable energy production tax credit for solar power and make the credit refundable and transferable. The task forces also suggest reintroduction of House Bill 380, which was originally introduced during the 2004 legislative session. The bill would provide for funding of clean energy renovations at state buildings, public schools and universities. The task forces also recommend that the legislature amend the Public Facility Energy Efficiency and Water Conservation Act to permit utility bill savings for companies that provide cost-free clean energy improvements. An amendment to the "net metering rule" was additionally suggested. Finally, the task forces suggest the establishment of an electricity transmission authority to provide for planning, construction, financing and operation of transmission infrastructure.

TRD LEGISLATIVE PROPOSALS

Secretary Jan Goodwin, Deputy Secretary Steve Dichter, Larry Kehoe, Motor Vehicle Division (MVD) director, and Libby Gonzales, Revenue Processing Division director, TRD, proposed to the RSTPC several legislative proposals for committee adoption.

The first proposal seeks to align interest rates with current market rates charged to taxpayers of delinquent taxes. The same proposal would also strengthen penalty provisions and add new sections on fraudulent and frivolous tax reports. The net fiscal impact to the state of that proposal is expected to amount to a $5 million loss to the general fund and an additional loss of $2 million to local governments.

The second proposal would create electronic reporting requirements with the Property Tax Division of the TRD for certain holders of properties presumed abandoned. A third proposal would require all vehicles weighing 26,000 pounds and under and registered after January 1, 2006 to display front and rear license plates. The fee would be set at $4.50 for existing registrations and $3.00 for new registrations. The fees collected are to be retained by the TRD to defray the cost, manufacture and issuance of the additional plates.

The fourth proposal would provide funds to resolve the MVD's $4 million deficit by increasing its administrative service fee by $1.50 on all transactions; modifying the distribution formula to appropriate new revenues to the MVD and municipal and county agents; and appropriating to the MVD excess balances from the Financial Responsibility Fund and any royalties received from commercial resellers of MVD data.

The TRD's final proposal for legislation addresses changes that the TRD asserts are necessary to bring New Mexico into substantial compliance with the Federal Motor Carrier Safety Administration rules. If the proposal becomes law, the general fund would be reduced by $27.8 million during the first year of the legislation's effectiveness and $55.6 million during each subsequent year.

The committee adjourned at approximately 12:00 noon.